

Warm Home Discount: Guidance for Licensed Electricity Suppliers and Licensed Gas Suppliers [Version 4]

Guidance

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Overview:

This document provides guidance on:-

- how Ofgem will perform its functions under the Warm Home Discount (WHD) scheme,
- what licensed electricity suppliers and licensed gas suppliers will need to do to comply and
- how Ofgem will interpret provisions of the WHD scheme.

This document is guidance for licensed electricity and gas suppliers to help them understand their obligations and to administer their obligations in line with the Warm Home Discount (2011) Regulations. This updates version 3 of the guidance document published on 29 July 2014. It provides clarity on the administration of the WHD scheme in light of our own and supplier experience of the scheme so far. It also reflects changes brought in by the Warm Home Discount (Miscellaneous Amendments) Regulations 2015 (WHD (Misc. Amend) Regs 2015).

It is the responsibility of each supplier to understand the provisions of the Regulations and how those provisions apply to them. This guidance is not intended to be a definitive guide to these provisions.

Context

The Energy Act 2010 provides the Secretary of State with powers to make regulations to introduce support schemes for the purpose of reducing fuel poverty. These powers have been exercised through the Warm Home Discount Regulations 2011 and subsequent amendments (the "Regulations") to establish the WHD scheme.

Additional regulations were also laid to allow for legal consent for data matching between government and Compulsory Scheme Electricity Suppliers (CSES) and Voluntary Scheme Electricity Suppliers (VSES) for the Core Group (The Disclosure of State Pension Credit Information Warm Home Discount Regulations 2011). This guidance has been amended to reflect the changes brought about by the Warm Home Discount (Miscellaneous Amendments) Regulations (2015).¹

Section 13 of the Energy Act 2010 places an obligation on the GEMA² (Ofgem) to keep under review the operation of any such support scheme and suppliers' compliance with it. The Warm Home Discount (2011) Regulations (WHD Regulations) extend Ofgem's role by requiring it to undertake a number of duties and functions. These include receiving information, providing information, making calculations and approving scheme activities before CSESs provide eligible benefits under the scheme.

Scheme suppliers are subject to a statutory requirement to comply with their obligations under the WHD scheme under sections 25(8) and Schedule 6A, 6(f)(i) to the Electricity Act 1989 and 28(8) and Schedule 4B, 4(e)(i) to the Gas Act 1986. These requirements were enacted under sections 9 to 11 of the Energy Act 2010 and are therefore relevant requirements for the purposes of Part 1 of the Gas Act 1986 and Part 1 of the Electricity Act 1989. Ofgem can take action if it is satisfied that a supplier has contravened, is contravening or is likely to contravene a relevant requirement. Such action may be by way of an order for securing compliance and/or, where a supplier has contravened or is contravening, by the imposition of a financial penalty.

¹ Commenced on 11 March 2015

² Ofgem is the office of the Gas and Electricity Markets Authority 'GEMA' and 'Ofgem' & 'GEMA' are used interchangeably

Associated documents

Legislation

- The Warm Home Discount (Reconciliation) Regulations 2011
http://www.legislation.gov.uk/uksi/2011/1414/pdfs/uksi_20111414_en.pdf
- The Warm Home Discount (Reconciliation) Regulations 2011
http://www.legislation.gov.uk/uksi/2011/1414/pdfs/uksi_20111414_en.pdf
- The Warm Home Discount Flexibility for Higher Spending
<https://www.gov.uk/government/consultations/warm-home-discount-flexibility-for-higher-spending>
- The Disclosure of State Pension Credit Information (Warm Home Discount) Regulations
http://www.legislation.gov.uk/uksi/2011/1830/pdfs/uksi_20111830_en.pdf
- The Warm Home Discount (Amendment) Regulations 2014
http://www.legislation.gov.uk/uksi/2014/695/pdfs/uksi_20140695_en.pdf
- The Warm Home Discount (Miscellaneous Amendments) Regulations 2015
<http://www.legislation.gov.uk/uksi/2015/652/contents/made>

Policy

- WHD Guidance version 3
<https://www.ofgem.gov.uk/ofgem-publications/89056/whdsupplierguidance3.pdf>
- The DECC consultation on Warm Home Discount: extension to 2015/16
<https://www.gov.uk/government/consultations/warm-home-discount-extension-to-201516>
- The DECC response to consultation on Warm Home Discount: extension to 2015/16
<https://www.gov.uk/government/consultations/warm-home-discount-extension-to-201516>

Document purpose and feedback process

Purpose of this document

The amendments to this version of the guidance relate to the changes arising from the WHD (Misc. Amend) Regs 2015. These regulations came into force on the 11 March 2015.

We are making changes to the guidance document for two reasons.

Firstly: the guidance has been amended to take account of recent amendments to the WHD Regulations through the WHD (Misc. Amend) Regs 2015. These changes include:

- Extending the length of the scheme to March 2016
- Introducing compulsory criteria to be used in the Broader Group (see chapter 4)
- Allowing flexibility of spending obligations between the Broader Group and Industry Initiatives in certain circumstances (Chapter 2)
- Expanding the list of eligible Industry Initiatives activities included in Schedule 4 of the WHD Regulations. (Chapter 5)

Secondly: some amendments to this guidance have also been undertaken to reflect changes to our administration of the scheme. We have also removed references to activities which are no longer eligible for the WHD scheme, primarily Legacy Spend which ceased at the end of SY3.

In particular, changes have been made to the following sections:

Participants in the WHD scheme/Elements of the WHD scheme

Clarification of types of participant and eligible activities; Paragraph 1.1 – 1.5

Ofgem notifications of market share and non-core spending obligation

Clarification of information we notify to suppliers; Paragraph 2.11 - 2.15

Adjustments for previous year Core Group spend

Addition of calculation introduced by amended regulations; Paragraph 2.36 – 2.39

Flexibility on Industry Initiatives spending limits

Addition of new flexibility on spending limits; Paragraph 2.49 – 2.53

Broader Group banking

Inclusion of overspend transferable to SY5; Paragraph 4.5

Broader Group criteria

Addition of new compulsory criteria for SY5; Paragraph 4.10 – 4.14

Fuel Poor

Clarification of fuel poverty definitions in GB, applicable to WHD; Paragraph 4.16-4.19

Legacy Spend – now removed. (Previous chapter 5)

Schedule 4 Activities

Addition of new eligible activities for SY5; Paragraph 5.15 – 5.18

Industry Initiatives eligible during Scheme Year 5

Explanatory notes on new Industry Initiatives; Paragraph 5.44 – 5.53

End of Year reporting requirements

Removed references to Legacy Spend; Paragraph 6.1 – 6.6

Audit Reports

Removed references to Legacy Spend; Paragraph 6.25 – 6.27

Dispute resolution – now removed (Standard Ofgem process may be used.)

Appendices 1 and 3 (*Updated to reflect SY5 timescales*)

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Executive Summary

Overview of the scheme and this document

The Warm Home Discount (WHD) scheme came into operation on 1 April 2011. The scheme mandated domestic energy suppliers to provide approximately £1.1 billion of direct and indirect support arrangements to fuel poor customers over a four year period to 31 March 2015. Through the WHD (Misc. Amend) Regs 2015, the scheme has been extended to 31 March 2016 with a spend of £320m for the fifth scheme year.

This document is aimed at obligated licensed domestic electricity suppliers and licensed domestic gas suppliers. It provides guidance on how Ofgem will perform its duties under the WHD scheme and how it will interpret various provisions of the scheme, especially with regards to supplier compliance.

The Core and Broader Group rebates are provided by suppliers to customers who are in or at risk of fuel poverty. This document explains the criteria for qualifying for the rebate, the amount of rebate to be paid, and the administration processes that need to be in place to effectively implement and manage these elements.

Industry Initiatives are a wider range of support that can be provided to fuel poor customers. The WHD scheme has continued to shape these supporting mechanisms and the WHD (Misc. Amend) Regs 2015 have introduced additional eligible activities. This guidance provides information to facilitate obligated suppliers to deliver these elements in line with the WHD Regulations.

The final sections of the guidance deal with the processes surrounding annual compliance assessment. These chapters provide obligated suppliers with guidance on the information that has to be provided to evidence their compliance with the WHD Regulations and their financial obligations.

Legacy Spend was part of the WHD scheme in Scheme Years 1, 2 and 3, but in line with the WHD Regulations is no longer part of WHD. For historic information on Legacy Spend, please refer to version 3 of the Guidance.³

³ <https://www.ofgem.gov.uk/ofgem-publications/89056/whdsupplierguidance3.pdf>

1. Introduction

Chapter Summary

This is an overview of the framework of the Warm Home Discount (WHD) scheme.

Overview of WHD scheme

Participants in the WHD scheme

1.1. There are two types of participant in the WHD scheme:

- **Compulsory Scheme Electricity Suppliers (CSESs):** A licensed electricity supplier is a CSES in a scheme year if it had at least 250,000 domestic customers on 31 December preceding the start of that scheme year. A CSES must comply with obligations under the Core Group, Broader Group and Industry Initiative elements (described in paragraph 1.2).
- **Voluntary Scheme Electricity Suppliers (VSESs):** A licensed electricity supplier is a VSES in a scheme year if it had less than 250,000 domestic customers on 31 December preceding the start of that scheme year, but elects to participate and notifies Ofgem of its intention to be a VSES. A VSES only has an obligation under the Core Group element.

Elements of the WHD scheme

1.2. The WHD scheme is based on three key elements: the Core Group, Broader Group, and Industry Initiatives:-

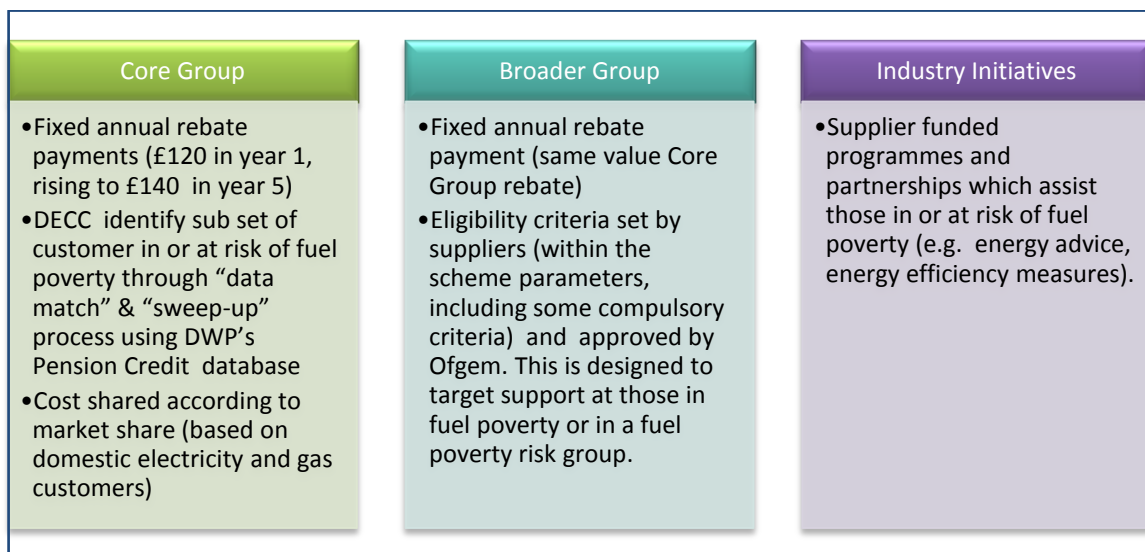
- The Core Group (Chapter 3) benefits households who are identified by the government as being at risk of fuel poverty through data matching and a sweep-up process. Pensioner households identified receive a specified financial benefit in the form of a rebate from their electricity supplier.
- The Broader Group (Chapter 4) also benefits households who are fuel poor or at risk of fuel poverty, these households are identified as eligible for a rebate by CSESs within the scheme parameters. This rebate is of the same value as those provided in the Core Group.
- Industry Initiatives (Chapter 5) are CSES programmes and partnerships which provide other benefits to vulnerable households (e.g. energy advice or energy efficiency measures).

1.3. The WHD scheme previously included a fourth element, Legacy Spend. This element provided continuing financial support to those types of customers already receiving social/discounted tariffs and other benefits under the Voluntary Agreement.

1.4. The Voluntary Agreement was made between the UK government and the largest energy suppliers to provide rebates and discounted tariffs, of variable value, to customers in fuel poverty between April 2008 and March 2011. When the WHD scheme was created it included arrangements to transition spend from variable discounted tariffs to the standard rebate of the WHD scheme. After these arrangements finished, permitted Legacy Spending by CSEs stopped at the end of scheme year 3.

1.5. Further information about Legacy Spend can be found in version 3 of our Guidance for Suppliers⁴.

Diagram A: Summary of key elements of the WHD scheme



DECC's role

1.6. DECC maintain overall responsibility for the coordination and oversight of the WHD scheme and any policy changes required. In particular they oversee the delivery of the Core Group activity and appoint a number of contractors to undertake specific tasks including the data match, the sweep up and the reconciliation exercises. DECC is also required to provide certain information to Ofgem and suppliers in order to enable them to undertake their WHD scheme duties and functions.

⁴ Warm Home Discount Supplier Guidance (Version 3): <https://www.ofgem.gov.uk/ofgem-publications/89056/whdsupplierguidance3.pdf>

1.7. Questions on the scheme as a whole, and specifically on the Core Group, should be directed to DECC via email (correspondence@decc.gsi.gov.uk) or by telephone (0300 060 4000), or information can be found on the DECC website.

Ofgem's role in WHD

1.8. Ofgem's role in the WHD scheme is to administer the non-core elements of the scheme (Broader Group and Industry Initiatives) and to monitor and facilitate suppliers' compliance with all elements of the scheme. Our functions include:

- Receiving suppliers' customer data notifications
- Calculating the market share of each CSES (both for the Core Group and the non-core spending obligation) and each VSES (for the Core Group only)
- Setting CSES spending obligations and limits for the non-core elements
- Receiving proposals from CSESs for the Broader Group and Industry Initiative elements of the scheme and determining whether to approve, reject or seek more information on the proposals⁵
- Monitoring and assessing CSESs and VSESs compliance with the scheme, including through the use of external auditors⁶
- Determining whether CSESs and VSESs obligations have been met

Supplier obligations

1.9. CSESs and those who elect to become obligated as VSESs are required to pay Core Group rebates. CSESs are also obligated to meet individual non-core spending obligations. Details of how these spending obligations are calculated are in Chapter 2.

Meaning of the term supplier

1.10. Throughout this document we use different terms for energy suppliers. The reason for this is because the WHD Regulations have different qualifying criteria for each element.

- **Core Group:** There are (i) compulsory obligated domestic electricity suppliers (CSESs) and their connected gas suppliers, and (ii) voluntary domestic electricity suppliers (VSESs). This is explained in paragraphs 2.7-2.10 after which they are both referred to as participating suppliers when referring to the Core Group.
- **Broader Group:** The duty is on the compulsory obligated domestic electricity supplier and the WHD Regulations refer to them as CSESs. Spend can also be discharged by a connected gas supplier (SGS).
- **Industry Initiatives:** The duty is on the compulsory obligated domestic electricity supplier and the WHD Regulations refer to them as CSESs. Spend can also be discharged by a connected gas supplier.

⁵ Ofgem has extensive powers to request further information under reg. 30 of the WHD Regulations.

⁶ As footnote 5.

Changes made to the previous supplier guidance

1.11. We have changed the guidance for two reasons:

- to take account of recent amendments the WHD (Misc. Amend) Regs 2015. Which extend the scheme for one year to March 2016 and introduce some changes to the activities which contribute to the WHD obligation
- to provide more information on existing aspects of the scheme

1.12. We have removed the previous Chapter 5, Legacy Spend, as this is no longer eligible for WHD in SY5. We have renumbered the subsequent chapters.

1.13. We have significantly altered the following sections:

- Chapter 2, Notification and target setting
- Chapter 4, Broader Group
- Chapter 5 (previously chapter 6), Industry Initiatives

1.14. We have made minor amendments throughout other chapters of the document, mainly to reflect changes in dates and Scheme Years, clarify the information relevant to VSEs and removed references to discontinued elements of the scheme.

1.15. The commencement date for the amendments to the WHD Regulations is the 11 March 2015.

1.16. The differences between this version and Version 3 are shown in Appendix 3.

Date of effect for version 4 of the guidance

1.17. The WHD (Misc. Amend) Regs 2015 come in effect from 11 March 2015. From this point onwards we will apply the process and policies described in this version of the guidance to CSEs and VSEs where they are obligated to participate in SY5.

1.18. Additionally, we have taken account of changes to the calculation of non-core spending obligations (regulation 13) and adjustments for banking and borrowing (regulation 14). These changes come into force at the same time as the amendments are made and therefore apply to the results of spending in SY4.

- Paragraph 2.19 will apply for Core Group spending in SY4
- Paragraphs 2.37 – 2.39 and paragraph 4.5 will apply to SY4 compliance assessments.

2. Notification and target setting

Chapter Summary

The notification of customer numbers is a requirement. Here we outline the different types of notification, who makes them, when they are to be made and what details are to be included. We also explain how this data is used to determine which suppliers are obligated, either on a Compulsory (CSES) or Voluntary (VSES) basis, and explains the way in which obligations for both types of participant are set.

Customer data notification

2.1. Each licensed domestic electricity supplier, and any licensed domestic gas supplier connected to a licensed domestic electricity supplier, is required to notify Ofgem of the number of domestic customers they had on the 31 December preceding the start of the scheme year. For SY5 this notification must be submitted to Ofgem by 25 March 2015. Under the amended WHD Regulation 4(2)(c), if we have received a notification of this data under any other Ofgem-administered scheme prior to this date, we will use this submission for the purposes of WHD.

2.2. Each year, customer data notifications will be requested from suppliers by Ofgem, and used by all Ofgem administered schemes which set scheme obligations based on customer number data, including WHD. The notification should be submitted by a nominated representative of the licensed electricity or gas supplier, with the authority to make such notifications.

2.3. In each individual customer data notification we require a list of the number of customers for the licensed domestic electricity suppliers and/or licensed domestic gas suppliers which are connected⁷ to the licensed domestic electricity supplier. Domestic dual fuel customers are to be counted twice (once as an electricity customer and once as a gas customer). Under WHD licensed electricity suppliers and licensed gas suppliers are connected to each other if they belong to the same group of companies. To reduce the administrative burden on suppliers we will accept joint notifications from connected licensed domestic suppliers as long as they detail each licensed supplier's relevant customer data separately.

2.4. To assist this process we will contact licensed domestic electricity suppliers in advance of the deadline to provide the forms which the required information should be submitted on. We will aim to do this by the end of January preceding the start of the scheme year.

⁷ For the purposes of the WHD Regulations, an electricity supplier or gas supplier (A) is connected to an electricity supplier or gas supplier (B) if A and B are companies belonging to the same group of companies.

2.5. This customer data notification is the same customer data that some licensed domestic electricity suppliers are required to notify Ofgem of under other schemes. We will therefore undertake a joint exercise to request this information for all relevant schemes so that one proforma need only be submitted for customer notification data.

2.6. If a licensed domestic electricity supplier or a licensed domestic gas supplier fails to provide a notification as required by the WHD Regulations then it will not be compliant with relevant requirements of its licence conditions. Ofgem does have the powers to determine a supplier's domestic customers for the 31 December preceding the start of the scheme year. However that does not remove the requirement from that supplier to submit notification of its number of domestic customers.

Defining Compulsory and Voluntary Scheme suppliers

2.7. A licensed electricity supplier is a CSES in a scheme year if it had at least 250,000 domestic customers on 31 December preceding the start of that scheme year. Part 1 of the WHD Regulations (Interpretation in part 2) gives the definition of domestic customers and dual fuel customers.

2.8. A licensed electricity supplier with less than 250,000 domestic customers on 31 December preceding the start of that scheme year is also a CSES in a scheme year if:

- a) it is connected to a licensed electricity supplier which is a CSES for that scheme year; or
- b) it is connected to a licensed gas supplier which had at least 250,000 domestic customers on 31 December preceding the start of that scheme year; or
- c) collectively the group of licensed electricity and gas suppliers connected to the licensed electricity supplier in question had at least 250,000 domestic customers on 31 December preceding the start of that scheme year.

2.9. A licensed electricity supplier can elect to be a VSES if collectively it, and any connected licensed electricity and/or gas suppliers had less than 250,000 domestic customers on 31 December preceding a scheme year and notifies Ofgem of its intention to be a VSES. This is referred to as an election notification for participation in the Core Group element of the scheme. For SY5, this notification must be submitted to Ofgem by 25 March 2015. Such customer data notifications and election notifications should be in writing and submitted to Ofgem's WHD Inbox (WHD@ofgem.gov.uk). The notification should be submitted by a nominated representative of the licensed electricity or gas supplier, with the authority to make such notifications. Notifications should be submitted as part of the customer number submission described in paragraphs 2.1 – 2.6.

2.10. A licensed gas supplier is a Scheme Gas Supplier (SGS) in a scheme year if; it supplied domestic customers on 31 December preceding the start of the scheme year and is connected to a licensed electricity supplier which is a CSES in that scheme

year. A SGS can spend on behalf of a CSES in the Broader Group and Industry Initiatives element.

Ofgem notifications of market share and non-core spending obligation

2.11. Ofgem will determine whether or not a domestic electricity supplier is a CSES and will confirm whether there are any VSEs.

2.12. We will notify each participating scheme supplier by 6 April 2015 of:

- their market share for the Core Group element
- their market share of the non-core element
- the value of their non-core spending obligation calculation
- The minimum amount of spending which the supplier must make under the Broader Group
- The maximum amount of spending which the supplier may count towards their non-core obligation through Industry Initiatives, and
- notify SGS of their status

2.13. The notification will only provide an initial non-core spending obligation calculation because a CSESs non-core spending obligations may be adjusted to recognise a supplier's own under or over spend in their non-core spending obligation for the previous scheme year. It will not be adjusted for any other reason.

2.14. We will notify each CSES of its final adjusted non-core spending obligation by 30 September of each scheme year. For Scheme Year 5, therefore, this will be 30 September 2015. How this adjustment will be made is detailed below in paragraphs 2.41-2.45.

The WHD scheme estimated spend profile

2.15. The anticipated or estimated total WHD spending target for each scheme year is as follows:

- Scheme year 1 - £250 million
- Scheme year 2 - £275 million
- Scheme year 3 - £300 million
- Scheme year 4 - £310 million
- Scheme year 5 - £320 million

2.16. We report the actual spend for each scheme year to the Secretary of State (SoS) annually, and these reports are published on our website.

The Core Group spending estimate

2.17. For SY5, the (SoS) will provide an estimate of that year's Core Group spending by 18 March 2015. This estimate is based on the estimated number of eligible customers i.e. the number of pensioners falling within the relevant Pension Credit subsets:-

- Scheme year 1 - only recipients of the Pension Credit Guarantee Credit (which is a subset of Pension Credit)
- Scheme year 2 - customers receiving Pension Credit, Guarantee Credit and Savings Credit aged 80 and over, in addition to those in receipt of Guarantee Credit only
- Scheme year 3 - customers receiving Pension Credit, Guarantee Credit and Savings Credit aged 75 and over, in addition to those in receipt of Guarantee Credit only
- Scheme years 4 and 5 - customers receiving Pension Credit, Guarantee Credit and Savings Credit aged 65 and over, in addition to those in receipt of Guarantee Credit only⁸

2.18. The estimated spend may also take into account Core Group spending in previous scheme years. The SoS may use this figure to adjust and determine the scheme year's total non-core spending obligation. DECC will inform Ofgem of this determination to allow Ofgem to calculate individual non-core spending obligations for relevant CSEs.

2.19. For SY5, Ofgem will take into account the year on year change in suppliers' market share when determining the non-core obligations for each supplier, in relation to any adjustments to the SY5 overall spending target by the SoS. The calculation used for this is described at paragraphs 2.37 – 2.39.

Market share calculation for Core Group

2.20. Ofgem will use the information provided by the domestic customer number data notifications to calculate the market share of each CSES/VSES in the Core Group, in order to apportion spending equally based on that data.

2.21. We will calculate the market share of each participating electricity supplier as directed by the Reconciliation Regulations⁹. The market share formulae to be used in

⁸ DECC Impact Assessment(IA): DECC0027 (28/02/1011)

• ⁹ The Warm Home Discount (Reconciliation) Regulations 2011
http://www.legislation.gov.uk/ukxi/2011/1414/pdfs/ukxi_20111414_en.pdf

the Core Group element mirrors the formulae used for calculating non-core spending obligations.

2.22. As confirmed in paragraph 2.11-2.13 above, each individual participating electricity supplier will be notified of its individual Core Group market share for SY5, by 6 April 2015.

2.23. A list of participating licensed suppliers will be provided to the reconciliation operator and DECC in line with the Reconciliation Regulations; see paragraph 3.25 – 3.27.

Market share calculations for the non-core obligation

2.24. Ofgem will use the data provided by the customer data notifications to calculate the market share of each CSES for the non-core element of the scheme.

2.25. For a licensed electricity supplier which is unconnected to a licensed gas supplier the equation for calculating its individual market share (ims) is as follows:

$$\text{ims}\% = \frac{\text{idc} \times 100}{\text{TDC}} \%$$

where:

idc = an individual licensed electricity supplier's number of domestic gas and electricity customers on 31 December preceding the scheme year (labelled "X" in the WHD Regulations); and

TDC = the total number of domestic customers of all compulsory scheme electricity suppliers and scheme gas suppliers which are connected to compulsory scheme electricity suppliers on 31 December preceding the scheme year (labelled "Y" in the WHD Regulations).

2.26. For a licensed electricity supplier which is not connected to any other scheme electricity supplier but is connected to one or more licensed gas suppliers, an individual electricity licensee's market share (ims) is as follows:

$$\text{ims} \% = \frac{(\text{idc} + \text{tgdc}) \times 100}{\text{TDC}} \%$$

2.27. Where:

tgdc = the total number of domestic customers of all licensed gas suppliers connected to that licence electricity supplier on 31 December preceding the scheme year.

2.28. For a licensed electricity supplier connected to other scheme electricity suppliers, which are connected to one or more licensed gas supplier, an individual electricity licensee's market share (ims) is as follows:

$$\text{ims \%} = \frac{(\text{idc}/\text{tedc}) \times (\text{tedc} + \text{tgdc}) \times 100}{\text{TDC}} \%$$

Where:

tedc = the total number of domestic customers of that licensed electricity supplier and of all other licensed electricity suppliers on 31 December preceding the scheme year

2.29. All 3 formulae can be compressed into one single formula:

$$\text{ims} = \text{idc}/\text{TDC} + [(\text{idc}/\text{tedc}) \times (\text{tgdc}/\text{TDC})]$$

2.30. For ease of internal administration and calculation, Ofgem may use the formula in paragraph 2.30.

Calculating non-core spending obligations

2.31. The total aggregate non-core spending obligation for each scheme year will be determined by the SoS. For SY5 this determination notification will take place by 18 March 2015.

2.32. A scheme year's total aggregate non-core spending obligation is calculated by subtracting the SoS estimate for that year's Core Group spending from the total WHD spending target for that year.

2.33. However, the total WHD spending targets may be adjusted by the SoS to account for any under or over spend in the Core Group in the previous year. For SY5 this will be done by 18 March 2015.

2.34. Once the total aggregate non-core spending obligation for a scheme year has been determined and notified to Ofgem, an individual CSES's initial non-core spending obligation can be calculated.

2.35. A CSES's non-core spending obligation is a percentage of the total aggregate non-core spending obligation for that scheme year, where the percentage is that supplier's market share as calculated in paragraphs 2.24 to 2.31.

Adjustments for previous year Core Group spend

2.36. As noted at paragraph 2.34, the overall WHD spending target for SY5 may be adjusted in relation to Core Group spend in SY4. The WHD (Misc. Amend) Regs 2015 sets out how this adjustment, if necessary, will be calculated in relation to SY5 which differs from previous scheme years¹⁰. This adjustment, if necessary, will affect individual supplier obligations as described at paragraph 2.38.

2.37. The final non-core obligation for each supplier will be either:

- A – B, if the SoS has reduced the overall spending target for SY5 on the basis of Core Group spending in SY4; or
- A + B, if the SoS has increased the overall spending target for SY5 on the basis of Core Group spending in SY4.

2.38. "A" and "B" are defined as follows:

- "A" is the supplier's calculated share of the SY5 non-core obligation before any adjustment related to SY4 Core Group spend; and
- "B" is the supplier's share of the adjustment to the overall spending target, with this share calculated using **SY4 market share**.

2.39. An initial non-core spending obligation will be calculated and notified to CSES using the formulae in paragraphs 2.24 to 2.38. However these targets may be adjusted for a supplier to reflect any allowed over or under spend in the non-core obligation during the previous scheme year by that supplier.

Adjustments for under- and over-spend

2.40. An adjustment can be made to a supplier's initial non-core spending obligation if that supplier has under or over spent on its non-core obligation in the previous scheme year.

2.41. CSESs are permitted to over or under spend on their non-core spending obligation in scheme years 1, 2 and 3. Any underspend greater than 1% in any of

¹⁰ WHD (Misc. Amend) Regs 2015 part 9, amendment to regulation 13:
http://www.legislation.gov.uk/ukdsi/2015/9780111126943/pdfs/ukdsi_9780111126943_en.pdf

those years will result in the supplier being non-compliant with the scheme's obligations. No underspend is permitted in scheme years 4 or 5, however suppliers may overspend on their obligation in these years.

2.42. Any permitted underspend (in SY 1-3) will be added to the initial non-core spending obligation for that CSES for the following scheme year. This additional obligation will not alter the maximum spend permitted for Industry Initiatives (see paragraphs 2.46 to 2.49 for more details).

2.43. CSESs can overspend on their non-core activities by any amount. However, a CSES can only 'bank' overspend against their non-core obligation up to the level permitted by the final WHD Regulations, as amended by WHD (Misc. Amend) Regs 2015¹¹, which for **SY4 is 5%**. Any banked overspend will be subtracted from a CSES's **initial** non-core spending obligation to provide an **adjusted** non-core spending obligation for the following scheme year.

2.44. By 30 September after each scheme year, Ofgem will provide CSESs with confirmation of their actual non-core WHD spend and the amount that can be counted toward or attributed to a CSES's WHD spending obligations. The difference between actual and attributable spend arises from a CSES spending above the allowable cap on Industry Initiatives for that scheme year. This formal intimation of a CSES's scheme year spend will be followed by any adjustments to the following scheme year's non-core obligation and respective caps and minimum thresholds.

Limits on Industry Initiatives

2.45. The WHD scheme allows CSESs to meet part of their WHD spending obligations through approved Industry Initiatives. Industry Initiatives allow for indirect forms of support and innovation to assist customers in or at risk of fuel poverty,

2.46. There is a cap on the total value of WHD scheme spending that can be attributed to approved Industry Initiatives. The cap is £30m in each scheme year.

2.47. Each CSES will be set an individual maximum limit on how much of its non-core spending obligation can be achieved through measures undertaken in Industry Initiatives. The individual maximum limit for each CSES will be in proportion to that CSES's market share for the non-core spending obligation, as calculated in paragraphs 2.24 to 2.31.

2.48. Any spending by a CSES beyond the maximum limits set in the Industry Initiatives element will not be counted as part of its WHD non-core spending.

¹¹ Regulation 14(3)(b)(iii)

Flexibility on Industry Initiative spending limits

2.49. Suppliers are under an obligation, in so far as it is reasonably practicable, to comply with the minimum spending commitment on Broader Group notified to them prior to the beginning of the scheme year¹².

2.50. However in Scheme Year 5, a CSES must notify Ofgem by midnight on 15th December 2015 if there is a risk that it will not be able to meet its minimum level of spend on Broader Group activity, despite making all reasonably practicable efforts.

2.51. Your notification should be submitted on a template form issued by Ofgem. Notifications should be submitted to WHD@ofgem.gov.uk and suppliers will receive an acknowledgement of receipt.

2.52. Ofgem has 28 days to determine whether, and the extent to which, the supplier may incur spending below the minimum Broader Group amount. As part of this process we will conduct a rigorous assessment of the information provided and require evidence that the appropriate governance has been in place. We will then determine the amount by which the supplier must increase their spending on Industry Initiatives to compensate.

2.53. Guidance on how we will administer this and the information that we will require from suppliers is detailed in our **Open Letter Guidance - Warm Home Discount Regulations 2011 [(as amended) WHD Regulations 2011]: regulation, 15(3)(a)**¹³.

¹² Regulation 12(5)(b)

¹³ <https://www.ofgem.gov.uk/ofgem-publications/94317/openletter-pdf>

3. Core Group

Chapter Summary

The suppliers' obligations and processes involved in the administration Core Group are described and signposts provided for participating suppliers to wider support and guidance on the Core Group element of the scheme.

Core Group overview

3.1. The Core Group of the Warm Home Discount (WHD) scheme uses data sharing between Government and participating suppliers to better target rebates at low income pensioners who have a high propensity to be fuel poor or at risk of being in fuel poverty.

3.2. The eligibility for the Core Group is set out in paragraph 2.17.

3.3. The value of the Core Group rebate can change each scheme year and is currently set at the following rate:

- Scheme year 1 - £120
- Scheme year 2 - £130
- Scheme year 3 - £135
- Scheme year 4 - £140
- Scheme year 5 - £140

3.4. Value Added Tax (VAT) should be applied to rebate payments when crediting an account or providing the rebate to a customer using a prepayment meter. The value above is inclusive of VAT.

DECC's role

3.5. The Department of Energy and Climate Change (DECC) and the Department of Work and Pensions (DWP) are central to delivery and take a lead role in administering this element. For further information on this area of the scheme please contact the DECC email helpdesk at correspondence@decc.gsi.gov.uk.

Ofgem's role

3.6. Ofgem is required to undertake a number of duties and functions in order for the Core Group element to operate. At the beginning of the scheme year Ofgem will

provide DECC and the Operator¹⁴ with a list of the suppliers who are either obligated to participate in the Core Group, or who have elected to participate, and a market share determination for each supplier.

3.7. Ofgem will use the data received from the domestic customer data notifications to provide a market share calculation for each participating supplier (see paragraphs 2.20 to - 2.23 above). We will then provide a total market share figure for each participating supplier. This process ought to be completed for SY5 no later than 6 April 2015. Ofgem also have a role in determining compliance (please see chapter 6 for full details).

Suppliers' obligations

3.8. Once Core Group customers have been identified and matched to a participating supplier, either directly through a data match or by contacting DECC's Helpline after receiving information from DECC. Regulation 7 requires CSEs and VSEs to provide a rebate to those customers or return the customer instruction to the SoS in cases where they have been notified to the incorrect supplier. Providing a rebate means:

- crediting the amount of the rebate to the customer's electricity account;
- tendering payment of that amount to the customer; or
- providing a customer who pre-pays for electricity with that amount of credit against future electricity use.

3.9. The policy intention with regards to crediting against future use is that this may include using the rebate to reduce debts on electricity accounts.

3.10. When a participating supplier provides a rebate under the Core Group, it must specify on the recipient's bill, or otherwise notify in writing, that the rebate was made under the WHD scheme.

3.11. A participating supplier must provide Core Group rebates by 31 March of each scheme year if they are to be counted towards meeting that supplier's core group spending obligation for that scheme year. The only exception is if the SoS notifies participating suppliers to provide a Core Group rebate after 1 March. In this instance a participating supplier will have up to 30 calendar days to provide the rebates to customers and those rebates will still count towards meeting that participating supplier's Core Group spending for the year for which the notification was made.

3.12. If SoS notifies suppliers to provide a Core Group rebate after the scheme year has ended, based on the data match and sweep up exercise which has occurred in

¹⁴ Operator: The person or organisation appointed by the Secretary of State to carry out the Core Group reconciliation

http://www.legislation.gov.uk/ukxi/2011/1414/pdfs/ukxi_20111414_en.pdf

the previous scheme year, the notification remains valid but the obligation is transferred to the following scheme year. For example if the SoS provides the notification on 5 April 2012, based on the scheme year 1 sweep up exercise, then the obligation to make rebate payments will transfer to the supplier's scheme year 2 WHD obligation. The conditions outlined in the above paragraph (3.11) still apply. The value of the rebate is as for the scheme year in which it is paid, in this example SY2's value.

3.13. In scheme year 5 no notices should be given by the SoS after the 1st of March 2016.

Regulation 8 exceptions

3.14. Where required, participating suppliers may apply an exception determined by the SoS under regulation 8 of the WHD Regulations. The application of this provision will be determined by Ofgem on a case by case basis. Examples of the exceptions determined for scheme years 1 to 5 include circumstances where:

- a customer is deceased and their account is closed. The energy supplier has not been able to contact a relative/executor;
- a customer is no longer living at that property, has closed their account and has no forwarding address.

3.15. These exceptions are determined by the SoS and as such, may be subject to change.

3.16. As set out in regulation 9(6), each supplier must, where they do not provide the rebate to one or more Core Group customers under regulation 8, notify Ofgem of:

- The number of Core Group customers to whom the supplier has not provided the prescribed rebates;
- The reasons why the supplier has not provided the prescribed rebate to those customers; and
- Any steps taken by the supplier to attempt to provide the prescribed rebate to those customers.

3.17. Participating suppliers will be subject to internal audit processes and could be externally audited to verify that the Core Group rebates have been provided to eligible electricity accounts and these exceptions have been fairly used and applied.

Customer status

3.18. Regulation 6(2) sets out that the SoS can notify a supplier of a customer where it 'appears' to the SoS that these are domestic customers of that participating supplier.

3.19. For a customer to be matched, participating suppliers must have provided these customer details to DWP. As the disclosure directions only ask for domestic account details to be shared in the matching process then it therefore “appears” to the SoS that these customers are domestic customers and hence should be provided the rebate.

3.20. Successful unmatched customers are also considered to be domestic customers and should receive the rebate. As a letter has been delivered to an address where DWP believe a Pension Credit recipient lives and that recipient has confirmed with DECC’s call centre they are eligible e.g. named on the bill with one of the participating suppliers then they also “appear” to the SoS to be a domestic customer.

3.21. In some cases, the information that the participating supplier has about the customer may not coincide with the information set out above. As it ‘appeared’ to the SoS that these were domestic customers, the expectation is that these rebates would be provided.

3.22. Participating suppliers may however decide to seek further information from the customer to clarify whether they do meet the definition of a domestic customer in the WHD Regulations. In discussion with the customer a range of situations could be revealed, including but not limited to:

- mistake with the MPAN which the supplier can rectify and credit the correct domestic account using the customer address information provided;
- A domestic property on a commercial tariff (e.g. farmhouse);and
- A customer believed to be of commercial origin.

3.23. If the participating supplier has strong evidence that this customer did not meet the definition of ‘domestic customer’, they may decide not to provide the rebate. A section in Ofgem’s end of year (EoY) reporting template is available to record these cases. This is not an ‘exception’, but a decision by the participating supplier that the information available about the customer does not meet the ‘domestic customer’ definition. Energy suppliers should keep a detailed record of the discussions, outcome and write to the customer to confirm why they will not receive the rebate.

3.24. A participating supplier may receive a notice from the SoS for a customer who is not a Core Group customer, or the supplier is unable to identify the customer as a Core Group customer. If this happens the supplier must notify the SoS within 30 days of receiving the notice.

Reconciliation

3.25. The WHD scheme assumes that the total cost of Core Group rebates are shared amongst all participating suppliers according to their market share. As such, it is necessary to put in place a reconciliation mechanism in order to balance Core Group expenditures across suppliers.

3.26. The Reconciliation Regulations establish the methodology and processes through which Core Group expenditures will be reconciled across energy suppliers. It also places a requirement, on the SoS to appoint an Operator to carry out the reconciliation functions.

3.27. Further information on the Reconciliation Process can be obtained from the Reconciliation Regulations or through contacting DECC (see paragraph 3.5).

4. Broader Group

Chapter Summary

The Broader Group element of the scheme is a rebate provided to a wider group of customers who are fuel poor or at risk of fuel poverty. This section outlines the obligations and conditions, including approval processes, for operating the Broader Group rebate.

Broader Group scheme activities

4.1. The Broader Group allows suppliers to identify and target those customers they believe are in or at risk of fuel poverty, and provide them with a Broader Group rebate.

4.2. As with Core Group rebates, Broader Group rebates must be provided to electricity accounts. They will also be of the same value as the Core Group rebate:

- Scheme year 1 - £120
- Scheme year 2 - £130
- Scheme year 3 - £135
- Scheme year 4 - £140
- Scheme year 5 - £140

4.3. Regulations 20(2)(a) and 20(2)(c) detail how Value Added Tax (VAT) should be applied to rebate payments when crediting an account or providing the rebate to a customer using a pre-payment meter. The values above include VAT.

4.4. Broader Group payments must be made by 31 March each scheme year to be counted towards a Compulsory Scheme Suppliers' (CSESs') Warm Home Discount (WHD) obligation.

4.5. CSESs can meet all of their non-core spending obligations through the Broader Group element. They can also spend above their non-core spending obligation if they choose, and overspend can be banked against the obligation in the following year up to a defined limit. The limit has been set under the WHD Regulations and varies by scheme year, as follows:

- For years 1 and 2, up to a maximum of 1.0% of overspend could be transferred to scheme years 2 and 3 respectively
- For year 3, up to a maximum of 34.0% of overspend could be transferred to scheme year 4 (see paragraphs 2.41 to 2.45).

- For year 4, up to a maximum of 5.0% of overspend can be transferred to scheme year 5.

Approval process

4.6. The WHD Regulations require that our prior approval is obtained with respect to any Broader Group proposals which will include eligibility criteria and verification measures. A CSES may “open” their Broader Group schemes prior to approval being in place. However, under no circumstances should any rebates be paid until such time as our approval is confirmed in writing.

4.7. CSESs are expected to submit their Broader Group scheme notifications, detailing their proposals to the WHD inbox (WHD@ofgem.gov.uk) using the notification template found in the separate Annex to this document. Notifications should be signed by an appropriate senior officer who will be accountable for the activity outlined in the notification.

4.8. Within 28 days of receiving a scheme notification Ofgem will approve the proposal, reject the proposal or make a reasonable request for additional information. If additional information is requested, then we will again provide a determination on the notification within 28 days of receiving the additional information requested. An activity should only be conducted in line with the approved notification for spend to be eligible. If there is a problem in undertaking the Broader Group activity in line with the approved notification, the CSESs are advised to contact the WHD team as soon as possible to discuss possible resolutions.

4.9. Approval for Broader Group schemes can be requested and given for more than one scheme year, up to the end of existing legislation. Approval of a CSES’s Broader Group, including the estimated spend, does not mean that the spend has been counted as the CSES’s Broader Group spend, or toward the CSES’s non-core obligation, or that the CSES complies with the WHD Regulations. Once the EoY compliance checks are complete, CSES’s will be informed of their attributable spend and any other adjustments by 30 September.

Broader Group criteria

4.10. CSESs are given discretion to target vulnerable customers they believe should receive a Broader Group rebate; within the scheme's parameters that support should be given to those in fuel poverty or in a fuel poverty at risk group. In order to target customers for a Broader Group rebate a supplier must set out eligibility criteria which customers must meet if they are to qualify for the Broader Group rebate.

4.11. For SY5, the WHD (Misc. Amend) Regs 2015 introduce standard criteria which must be included in all suppliers’ eligibility criteria¹⁵. The WHD Regulations set out a

¹⁵ Regulation 19(5)(as amended)

compulsory list of benefits which suppliers must include in their eligibility criteria for Broader Group rebate payments, along with any others chosen at their discretion subject to the requirements in paragraph 4.10. These benefits are split into five groups:

Table 3: Compulsory Broader Group qualifying benefits ¹⁶

<p>1. A person who receives Income Support.</p>	<p>And a) has a child under the age of 5 who ordinarily resides with that person.</p> <p>Or b) receives any one of the following in addition to Income Support</p> <ul style="list-style-type: none"> - Child tax credit which includes a disability or severe disability element; - A disabled child premium; - A disability premium, enhanced disability premium or severe disability premium; - A pensioner premium, higher pensioner premium or enhanced pensioner premium
<p>2. A person who receives Income-related Employment and Support Allowance which includes a work-related activity or support component</p>	<p>And a) has a child under the age of 5 who ordinarily resides with that person.</p> <p>Or b) receives any one of the following in addition to Employment and Support Allowance</p> <ul style="list-style-type: none"> - Child tax credit which includes a disability or severe disability element; - A disabled child premium; - A disability premium, enhanced disability premium or severe disability premium; - A pensioner premium, higher pensioner premium or enhanced pensioner premium
<p>3. A person who receives Income-based Jobseeker’s Allowance</p>	<p>And a) has a child under the age of 5 who ordinarily resides with that person.</p> <p>Or b) receives any one of the following in addition to Income-based Jobseeker’s Allowance</p> <ul style="list-style-type: none"> - Child tax credit which includes a disability or severe disability element; - A disabled child premium; - A disability premium, enhanced disability premium or severe disability premium; <p>A pensioner premium, higher pensioner premium or enhanced pensioner premium</p>
<p>4. A person who is in receipt of</p>	<p>And (a) is in receipt of the limited capability for work element, with or without a work-related activity element</p>

¹⁶ Note the transition to the “new universal credit,” and related reforms to the benefit system http://www.legislation.gov.uk/ukdsi/2015/9780111126943/pdfs/ukdsi_9780111126943_en.pdf

universal credit, and is not in work or is self-employed and on an annual income not exceeding £16,190	Or (b) is in receipt of the disabled child element
	Or (c) has parental responsibility for a child under the age of 5 who ordinarily resides with that person

5. A person who is receiving child tax credit by virtue of an award which is based on an annual income not exceeding £16,190	And is in receipt of a qualifying component falling within paragraph (a) or (b) of the definition of a qualifying component (as criteria 1 to 3 above),
	Or (b) has parental responsibility for a child under the age of 5 who ordinarily resides with that person

4.12. Suppliers should note that criteria 1, 2 and 3 were introduced by the original WHD Regulations, and are unchanged, but that criteria 4 and 5 have been introduced by the WHD (Misc. Amend) Regs 2015.

4.13. Suppliers can choose additional eligibility criteria to target customers in fuel poverty or in a fuel poverty risk group. This could include proposals to pay the partners of those who would be eligible under the criteria set out in Table 3. However in such cases we expect suppliers to verify that the customer benefiting from the rebate is actually a partner of someone who would be eligible under one of the criteria set out in Table 3 as if they were the account holder.

4.14. If a CSES uses only the compulsory criteria then the WHD Regulations state that the Authority must approve CSES’s eligibility criteria. The criteria outlined in the WHD Regulations provide an indication of the fundamentals for any other criteria developed by a CSES. That is that the customer has to be both on a low income **AND** vulnerable. This can be either low income from benefits other than those outlined above, or low earned income. Vulnerability can include a wide range of conditions from medical, social or age-related vulnerability. It is for the CSES to determine and be able to show or evidence the vulnerabilities they will include. Ofgem has to be assured or satisfied that customers meeting the criteria will wholly or mainly be people in or at risk of fuel poverty (regulation 19(5)(b)).

4.15. In scheme years 2 to 5 CSESs must ensure customers “meeting the criteria will wholly or mainly be people who were not Core Group customers in the previous scheme year” (regulation 19(6)). If the CSES has included any pension credit customer group in their additional criteria, to minimise the potential for duplication between the Broader Group and the Core Group CSESs should monitor their Broader Group and Core Group to satisfy themselves that regulation 19(6) is being adhered to. The information that a CSES has to provide Core Group rebates, should also be used to reduce the chance that a customer account receives more than one WHD rebate in each scheme year.

4.16. **Low Income:** We will check the proposed eligibility criteria to ensure that the criteria clearly target those on low income, and that the process or methodology adopted by the CSES ensures that the source(s) or indicators of the low income are being recorded and that documentary evidence confirming eligibility is 'readily available'. The low income threshold is aligned to the government's child tax credit threshold.

4.17. **Vulnerability:** CSESs may revert to their Priority Services Register or to criteria developed as part of their Voluntary Agreement. This in itself is not sufficient to evidence vulnerability for the purposes of the WHD scheme. It is preferred that the vulnerability criteria are clearly itemised and specified, with reasons or explanation for their inclusion. For vulnerable older people, the minimum age threshold should be the same as the government's pensionable age (for women) as at April of the relevant scheme year.

4.18. **Fuel Poor:** For customers in Scotland and Wales the relevant 'official' definition of fuel poverty is where they can evidence a customer's energy consumption is greater than 10% of their income. This has been the generally accepted definition used across the WHD scheme.

4.19. The government has published its fuel poverty strategy for England in March 2015¹⁷. For the purposes of SY5, we will assume that the use of the 10% indicator outlined in paragraph 4.18 will continue for all GB customers when assessing fuel poverty status.

Verification measures

4.20. The WHD Regulations also clearly establish and set out the steps that a CSES has to go through to register and verify their customers for the Broader Group. If the CSES complies with the steps set out in regulation 19(7), Ofgem has a duty to approve the supplier's proposed verification measures. If a CSES has elected to rely on the measures set out at Part 2 to Schedule 2, it will need to follow these steps:-

- Obtaining from each customer orally or in writing; their name, address and telephone number; a declaration that the customer meets the supplier's eligibility criteria; and an explanation of how the customer meets the criteria;
- Explaining to the customer that they may be asked to provide evidence of their eligibility before receiving the rebate;
- A CSES will have to obtain documentary evidence from a minimum of 5% of their Broader Group Customers prior to paying out the Broader Group rebate to those customers.

¹⁷ Cutting the cost of keeping warm: A new poverty strategy for England
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408644/cutting_the_cost_of_keeping_warm.pdf

4.21. In exceptional circumstances, where a customer may not have or be able to provide a telephone number, under regulation 19(7)(b) the use of an email address may be considered as effective for verification purposes. We recommend that CSESs collect a statement from the customer that he/she does not use or have a telephone or prefers not to use one.

4.22. The practice the WHD team employs is to check that either the CSES Broader Group scripts or the application forms include information that addresses the requirements of the WHD Regulations.

4.23. In relation to the 5% verification requirement, we will check that the sample is generated randomly across the total Broader Group population or customer base, and is at least a 5% sample.

4.24. If a CSES opts to use their own verification measures, they must evidence that these will be at least as effective as those specified in Part 2 of Schedule 2 to the WHD Regulations.

4.25. Failure to demonstrate any of the above specifications may result in further investigation by Ofgem and a CSES will be at risk of non-compliance if Ofgem is not satisfied that measures have been put in place to ensure Broader Group payments have been targeted at the right people. Similarly Ofgem may investigate and take appropriate actions in the event that the verification measures stipulated in the WHD Regulations, or otherwise agreed, have not been followed correctly.

Payment method and notification

4.26. The required means of providing a rebate are the same as for the Core Group. In this scheme providing a rebate means:

- crediting the amount of the rebate to the customer's electricity account;
- tendering payment to the customer; or
- providing a customer who pre-pays for electricity with credit against future electricity use.

4.27. The policy intention for crediting against future use is that this may include using the rebate to reduce debts on electricity accounts.

4.28. The preferred methods are to directly credit the customer account or provide credit to the prepayment device. Tendering the amount or payment by cheque or electronic transfer should be seen as a last resort (minimising the opportunity for fraud).

4.29. Rebate payments can only be made to the CSES's own customers, in line with regulation 18(1).

4.30. The CSES must specify on the recipient's bill, or otherwise notify in writing, that the rebate was made under the WHD scheme.

4.31. VAT should be applied to rebate payments when crediting an account or providing the rebate to a customer using a pre-payment meter. The value stated in 4.2 is inclusive of VAT. As with Core Group rebates, Broader Group rebates must be made through electricity accounts.

Governance and management

4.32. We expect CSESs to have robust governance and management processes in place to satisfy themselves that the Broader Group element of the scheme is being complied with in line with the WHD Regulations. We would seek evidence in the notifications from CSESs of the structures in place to:

- Oversee, at an appropriate level of senior management, the implementation of Broader Group schemes and rebate payments
- Monitor and report on implementation progress at management level
- Ensure at an operational level that there is sufficient management and administrative capacity to administer the rebate scheme

Fraud, misuse and abuse prevention

4.33. We also expect CSESs to have robust fraud management processes in place. Part 2 Schedule 2 of the WHD Regulations set out the minimum requirements that CSESs need to apply to reduce the risk of fraudulent applications and hence awards. In addition, the WHD team carry out the following checks:-

- The measures in place to minimise the risk of misuse, abuse and fraudulent payments
- The measures in place to evidence a rebate is paid to an eligible person/household (for example, this can include validating the account before a payment is provided)

4.34. Further details on audit and fraud prevention can be found in Chapter 7.

Amendments

4.35. Any amendments to proposals will need to be submitted to Ofgem. Approval of amendments will follow the process outlined for proposals above. Approval must be received from Ofgem before the amendments are put in effect by the supplier. The amendments can be submitted using the same templates as initial notifications. For minor amendments, CSESs should contact Ofgem to agree the most appropriate method for notification.

4.36. The regulations for SY5 include flexibility on Broader Group obligations where suppliers have made all reasonably practicable efforts to meet their obligations, which are described at paragraph 2.50-2.54 and in our Open Letter Guidance - Warm Home Discount Regulations 2011 [(as amended) WHD Regulations 2011]: regulation, 15(3)(a).

5. Industry Initiatives

Chapter summary

Industry Initiatives are projects or schemes provided for customers who are fuel poor or at risk of fuel poverty. This section describes the permitted activities, the approval process and the process for administering this element.

Industry Initiatives overview

5.1. Under the Warm Home Discount Scheme (WHD) scheme, Compulsory Scheme Electricity Suppliers (CSEs) are able to meet part of their non-core spending obligation through Industry Initiatives. Spending on Industry Initiatives can be undertaken by either a licensed electricity or connected licensed gas supplier. The WHD scheme has a number of criteria that must be complied with to ensure that the Industry Initiatives costs can be counted towards the CSEs' non-core obligation. These criteria are described in this chapter.

5.2. Overall spending on Industry Initiatives within each year of the scheme is limited to £30m across all CSEs. Spending on Industry Initiatives is limited for each CSE according to the calculations detailed in paragraphs 2.46 to 2.49 above. Any additional spending a CSE makes above this limit will not count towards that CSE's WHD spending for that year. The only exception to this is where approval for increased Industry Initiatives spend has been received from Ofgem under regulation 15(3)(b)(ii) and the supplier has been notified in writing of Ofgem's approval as required.

5.3. The process for requesting increased spend on Industry Initiatives to be attributable in SY5 is outlined in paragraphs 2.50 – 2.54 and our **Open Letter Guidance - Warm Home Discount Regulations 2011 [(as amended) WHD Regulations 2011]: regulation, 15(3)(a)**¹⁸.

Approval process

5.4. For all scheme years, a CSE must get Ofgem approval for the Industry Initiative before transferring funding or paying for the costs of the initiative. It is advisable that approval from Ofgem is gained prior to the initiative commencing operations to negate any risks associated with carrying out activity not approved by Ofgem. The CSE can seek approval by completing the notification template in the separate Annex to this document.

5.5. The benefits resulting from Industry Initiatives are required to be targeted to people in fuel poverty or in a fuel poverty risk group. There are no restrictions in the

¹⁸ <https://www.ofgem.gov.uk/ofgem-publications/94317/openletter-pdf>

WHD Regulations which would prevent someone benefiting from a rebate emanating from other elements of the WHD scheme also benefiting from a particular Industry Initiative.

5.6. Within 28 days of receiving a scheme notification Ofgem will, approve the proposal, reject the proposal or request additional information. If additional information is requested by Ofgem and submitted by suppliers, Ofgem will provide a further response to the notification within 28 days of receiving the additional information requested. An activity should only be conducted in line with the approved notification for spend to be eligible. If there is a problem in undertaking the Industry Initiative activity in line with the approved notification, the CSES is advised to contact the Ofgem WHD team as soon as possible to agree possible resolutions.

5.7. CSESs should submit their scheme notifications, proposing their activity to the WHD inbox at: WHD@ofgem.gov.uk. Notifications should be signed by an appropriate senior officer who will be accountable for the activity outlined in the notification.

5.8. Approval can be requested and given for schemes spanning more than one year, up to and including scheme year 5. For vulnerable older people, the minimum age threshold should be the same as the government's pensionable age (for women) as at 6 April of the relevant scheme year.

5.9. For initiatives seeking approval for Scheme year 5, we will require the CSES to submit evidence to support the EoY compliance assessment by 26 May 2016. This is because the scheme concludes on 31 March 2016, and therefore compliance with all elements of the scheme for year 5 must be concluded by then.

5.10. In practice, this means that an initiative must have completed (or nearly completed) delivery of its service in time for the CSES to provide final data or information (including audit reports) that will evidence activity, targeting and value for money by 26 May 2016.

5.11. If a supplier has concerns on how this may impact on their Industry Initiatives, then these must be discussed and agreement reached with Ofgem before the EoY report for scheme year 5 is submitted.

5.12. Joint Industry Initiatives, undertaken by one or more CSESs, are permitted under the WHD scheme. However, the WHD Regulations require each individual CSES to submit their own proposals and EoY report (even if much of the information is duplicated between CSESs). We are able to discuss such initiatives with third parties and advise them on how the proposals can be formulated, once we have received confirmation from one or more CSESs that they want us to do so.

5.13. In cases where a supplier group operates several or through several CSESs it can choose to determine each CSES's Industry Initiatives spend, up to each cap provided that the total Industry Initiatives spend obligation is met for that group.

Industry Initiatives criteria

5.14. The WHD Regulations provide that we must approve a CSES's Industry Initiatives proposal if:

- the activity is permitted under Schedule 4 to the WHD Regulations
- it includes adequate measures to ensure (as far as reasonably practicable), that benefits provided under the initiative are provided wholly or mainly to people in fuel poverty or in a fuel poverty risk group and
- it represents value for money

Schedule 4 Activities

5.15. For SY5 the list of Schedule 4 activities has been expanded, under the WHD (Misc. Amend) Regs 2015. The activities that are permitted under Schedule 4 are:-

- Payments to organisations for referrals
- Benefit entitlement checks and or assistance to claim
- Provision of energy, thermal efficiency measures, energy efficient appliances or micro generation
- Provision of Energy Efficiency Advice
- Funding training to provide Energy Advice
- Provision of assistance to reduce or cancel energy debts as part of a package;
- Rebate payments to eligible occupiers of mobile homes*
- Provision of energy efficiency advice and/or measures to customers:
 - i. In off-gas grid homes*
 - ii. In households with a person who has a significant health problem or disability*
 - iii. in communities wholly or mainly in fuel poverty*

**suppliers should note that these measures were added to the WHD Regulations by the WHD(Misc. Amend) Regs 2015, and are eligible activities only from the beginning of SY5*

5.16. The Industry Initiatives can comprise either a single or multi activity initiative. The notification should clearly identify the different eligible activities and provide some information of how that service is to be provided.

5.17. In particular, any Industry Initiatives that offers support other than purely energy advice should ensure, so far as reasonably practicable, that every consumer provided with benefits under the initiatives will also be provided with energy advice. Energy advice is taken to include advice on fuel options, tariffs, energy bills, as well as thermal efficiency advice and energy efficiency advice that takes into consideration the customer's behaviour and home environment.

5.18. Research¹⁹ has shown that energy advice services offer the best outcomes for vulnerable and poor consumers when the service is packaged in such a way that it is bespoke, offers additional support and is delivered in-home. Where possible we would encourage suppliers to consider delivering energy advice services in this way.

5.19. The initiative can involve a single delivery agent or a variety of partner organisations with differing roles and responsibilities. The notification should provide as much information as possible, to help the WHD team to understand the 'service' that is being provided, and which organisation is responsible for the respective activities or elements.

5.20. One type of delivery organisation favoured by CSEs, especially for debt assistance, is a 'Trust' established for a specific purpose. This type of organisation does not exempt the CSEs from its responsibilities, or change the nature of the notification and information required, nor from the checks that the WHD team would conduct to ensure compliance with the WHD Regulations.

5.21. If a supplier has any concerns regarding their obligations when working with third parties or Trusts, they should contact the WHD team to discuss.

5.22. Spending on an Industry Initiative will not count towards the fulfilment of a CSE's non-core spending obligation if the activity is a requirement under the CSE's electricity or gas supply licence, or if the activity is being used by the CSE in order to meet spending obligations or targets imposed in another scheme.

5.23. Spending will also not count towards the fulfilment of a CSE's non-core spending obligation if the activity is part of a settlement between Ofgem and the CSE to provide consumer redress as a result of previous licence breaches or failure to meet a target under a licence obligation.

5.24. There is a declaration in the notification that CSEs must complete confirming that the activities undertaken in the Industry Initiative are not also being counted as part of another obligation or licence condition.

Targeting

5.25. The WHD Regulations state that 'as far as reasonably practicable, that the benefits provided are wholly or mainly to persons in or at risk of fuel poverty'. We define 'wholly or mainly' to mean that **significantly more than half** of the service's customers are fuel poor or at risk of fuel poverty. We don't intend to set a minimum threshold but will expect CSEs to show that a significant proportion of a service's customers are fuel poor or at risk of fuel poverty. Therefore, we need to be assured

¹⁹ Warm Home Discount - Energy Advice: Consumer Experiences (published 2014)
<https://www.ofgem.gov.uk/ofgem-publications/91104/warmhomediscountenergyadviceconsumerexperiencesfinal.pdf>

that the initiative is targeted in the appropriate way. We will also encourage CSESs to review targeting to optimise the number of fuel poor benefiting from the service.

Fuel poor households are those people or households who are generally either:

- low income
- low income and/or vulnerable
- low income and spend more than 10% of their income on energy

5.26. Those who are in a fuel poverty at risk group could include vulnerable households who because of frailty, particular needs or medical conditions are required to heat their home for longer and/or to a suitable ambient temperature. This is not seen as absolute, therefore if CSESs provide alternative definitions or criteria these will be fully examined and considered.

5.27. We will check the notification to ensure that the CSES has clearly described how the initiative will be targeted and how the evidence will be gathered to support targeting. Many initiatives conduct a financial assessment as part of their service; this is one way in which evidence can be collated to show clearly the number of recipients on low income. If this type of information is not routinely collected, then we will look for evidence of proxies. The type of proxies we would look for are that the Industry Initiative is:

- working with organisations that operate in areas of deprivation
- working with client groups that are likely to be wholly or mainly fuel poor

We would encourage any supplier that chose to use these proxies to randomly sample beneficiaries of an initiative for which reporting data was not readily available.

5.28. For training initiatives we would seek to elicit proxies, for example, that trainees were from organisations that would be assisting/providing a service to fuel poor or low income households e.g.

- charitable organisations working with people with particular vulnerabilities
- advice agencies that can show that their customer profile comprises wholly or mainly low income or fuel poor clients
- organisations solely operating in geographies with low scoring multiple deprivation indices

Value for money

5.29. The types of information that a supplier should provide to demonstrate value for money depends on the nature and scope of the proposal. But as a rule the following cost breakdown/detail should be provided:-

- Administration costs - This should include the costs (where applicable) of the direct service, central overheads, publishing, advertising, equipment costs, accommodation costs, etc. It is expected that activities like referrals, benefit entitlement checks, energy advice and training should be able to itemise their running costs within this overall heading
- For Debt Assistance schemes – In addition to the above, there should also be information on the range and average income of the beneficiaries and awards made to them. Information should also be included on the number of applicants and/or beneficiaries that receive benefit/financial advice, energy efficiency advice, and other assistance whether this is energy efficient measures, other financial assistance, etc
- For Energy Efficiency Measures- In addition to providing information separately on the administration of the scheme, information on costs of the individual measures, the number of each type of measure provided, and the number of awardees

5.30. Often initiatives are based on existing or similar schemes and therefore information or estimates are available. Where this is not the case a CSES should provide best estimates as a basis to the Industry Initiatives' costs.

5.31. In assessing value for money the WHD team may take into account the following types of factors:

- The administration cost per applicant and/or per awardee or trainee
- The average amount of each award/benefit
- The spend versus the outputs
- Additional value

5.32. If the proposal involves a third party, we would expect the CSES to demonstrate that third party is value for money. This will be evidenced either through a tendering process, or explanation of why the organisation is the preferred provider.

Governance and management

5.33. We expect CSES to have robust governance and management processes in place to satisfy themselves that the Industry Initiatives element of the scheme is being operated in line with the WHD Regulations. In this regard, CSESs must provide evidence that they have the following structures in place to:

- Oversee at an appropriate level of senior management the implementation of Industry Initiatives schemes and rebate payments

- Monitoring and reporting on implementation progress at management level
- At an operational level that there is sufficient management and administrative capacity to administer the Industry Initiatives

5.34. For Industry Initiatives that involve third parties the following information is required:-

- That a contract or formal agreement is in place with the 3rd party(ies)
- The frequency and nature of reporting between the CSES and the 3rd party organisation(s)
- Other information e.g. brief information on the internal governance structures of the 3rd party organisation(s).

5.35. Where the CSES provides a donation or other payment to a trust fund or charitable trust we would expect :-

- The records of the transfer of the donation(s) or payment(s) to be paid within the relevant scheme year, and details to be recorded and available for audit
- The trust in administering the initiative(s) should adhere to the similar requirements as laid out in paragraph 5.32

5.36. Ofgem must be satisfied that a CSES's proposed activity will benefit those in fuel poverty or those at risk of fuel poverty. We recognise that CSESs may appoint third parties or engage in partnerships with organisations to effectively administer Industry Initiatives activities. We expect CSESs to demonstrate reasonable caution when choosing a third party to carry out any of their functions. In choosing to engage in such partnerships Ofgem must be satisfied that there are adequate controls and oversight to ensure the money is spent correctly.

5.37. Adequate controls on third party partners must include detailed instructions from CSESs to third party partners as to what the money must be spent on, relevant scheme restrictions, appropriate reporting and confirmation that the money was spent correctly by a suitable representative of the third party partner.

5.38. CSESs must have activities approved by Ofgem before spending can take place. Failure to propose measures that are suitably robust in delivering activities to the right people may mean that the activity is not given approval, as we may not be assured that the money will benefit those suffering from fuel poverty or at risk of fuel poverty.

5.39. For the avoidance of doubt, if a CSES uses a third party, the ultimate responsibility for ensuring adequate controls and compliance of the activity rests with the CSES.

Trusts

5.40. Trusts are a recognised vehicle for administering the Industry Initiatives on a CSEs behalf. The requirement on CSEs in terms of providing information detailing activity, targeting, value for money (please refer to paragraphs 5.14-5.31) do not change because the administration falls under the auspices of the Trust. Similarly EoY compliance requirements (5.36 to 5.38) do not alter because the Industry Initiatives is administered through a trust.

Fraud prevention

5.41. We also expect CSEs to have robust fraud and abuse management processes in place. We therefore require CSEs to demonstrate in their proposals how they plan to minimise the risk of misuse of the funding they commit to the proposed Industry Initiatives activity and/or misrepresentation of the outcomes delivered from it. The Ofgem WHD team need to be satisfied with such fraud prevention measures before an Industry Initiatives is approved.

5.42. Further details on audit and fraud prevention can be found in Chapter 7.

Amendments to Industry Initiatives proposals

5.43. Any amendments to Industry Initiatives proposals will need to be submitted to Ofgem. This includes situations where anticipated spend or level of outputs has changed significantly from the original notification. Approval of amendments will generally follow the process outlined above for initial proposals. Amendments should not be put into effect by the supplier until approval has been received from Ofgem.

Industry Initiatives eligible during Scheme Year 5

Community-level industry initiatives

5.44. For scheme year 5 only, Schedule 4 of the WHD Regulations includes the provision of energy advice and energy efficiency measures to people living in a community where residents are wholly or mainly in fuel poverty, or in a fuel poverty risk group. This allows suppliers, in this instance only, to evidence targeting of consumers by showing that recipients are living in a community where residents are wholly or mainly in fuel poverty, or in a fuel poverty risk group.

5.45. DECC explored the groups who would benefit from a community approach to delivery in the Warm Home Discount: extension to 2015/16 consultation document²⁰. Suppliers may find this information useful when considering a community-level

²⁰ Warm Home Discount: extension to 2015/16, page 29:

<https://www.gov.uk/government/consultations/warm-home-discount-extension-to-201516>

Industry Initiatives for submission to Ofgem, although information setting out how the initiative ensures the beneficiaries are living in a community where residents are wholly or mainly in fuel poverty, or in a fuel poverty risk group should still be included in the notification.

5.46. In this case, we will accept evidence that recipients live in certain areas (e.g. from address or postcode data) which can be shown are wholly or mainly in or at risk of fuel poverty, or have indicators of significant deprivation, with reference to independently prepared national or local statistical indicators.

5.47. Eligibility under Schedule 4 criteria and value for money requirements are unaffected and must be demonstrated as for other types of industry initiatives.

Provision of rebates to eligible occupiers of mobile homes

5.48. For scheme year 5 only, Schedule 4 of the WHD Regulations includes the making, or funding the making by other persons, of payments to eligible occupiers of mobile homes. This includes buildings, such as Park Homes, which fall under the meaning given in Section 5 of the Mobile Homes Act 1983.

5.49. We expect these payments to be equal to those made as Core and Broader Group rebates, which for SY5 is £140 (inc. VAT)

5.50. These Industry Initiatives should be able to evidence at the end of the year both that recipients were eligible for WHD support, and that they were occupiers of mobile homes. Proposals to evidence these criteria should be included in the notification requesting approval from Ofgem to operate the Initiative.

5.51. As with other Industry Initiatives, it is not necessary for recipients of support funded by a supplier through this type of initiative to be a customer of that supplier.

5.52. Most occupiers of mobile homes do not have a direct relationship with an energy supplier, and as such it will not be possible in the majority of cases to apply a rebate direct to an energy account. To encourage these recipients to use the rebate to pay for future energy use or to reduce debts on energy accounts we would expect that correspondence attached to the WHD rebate would state that the rebate is used to assist with energy costs.

5.53. We also expect the notification to clearly show steps that will be taken to minimise the risk of fraud or abuse on these rebates. This should include plans to counter fraud and abuse in relation to applications and interception of the rebate.

Preparation for End of Year reporting

5.54. Ofgem will seek assurance from CSEs that the level of spending they declare in their EoY reporting has only been used for the purpose of the activities outlined in

Schedule 4 of the WHD Regulations and that 'the benefits provided are provided wholly or mainly to persons in fuel poverty or a fuel poverty at risk group'. The CSES's EoY Report will provide evidence of this and seek confirmation that double counting with other schemes, such as ECO, or any other type of misreporting has not occurred.

5.55. Failure to provide such evidence may result in spend not being eligible under the WHD scheme and the CSES being found non-compliant with their obligations.

5.56. For Industry Initiatives (scheme years 1 to 4) that have been counted toward a supplier's scheme year non-core obligation, but where activities have not yet commenced or are at an early state of implementation, Ofgem will seek to complete the full EoY compliance checking at a mutually agreed point later in the following scheme year. This means that the CSES will provide confirmation of:

- The services that have been provided and that these align with Schedule 4
- The number of persons in fuel poverty or in a fuel poverty risk group that have benefitted from services
- The cost of the service, and if this varies by +/- 5% of the estimates in the notification that explanation is provided for the variance
- Audit reports

5.57. For further information on EoY reporting for Industry Initiatives please refer to Chapter 6.

6. End of Year Reporting

Chapter Summary

The end of scheme year reporting is undertaken as part of compliance checking. This chapter outlines the information required and the process for suppliers to submit end of year reports.

End of year reporting

6.1. Following the end of each scheme year Ofgem will write to all Compulsory Scheme Electricity Suppliers (CSEs) and Voluntary Scheme Electricity Suppliers (VSEs) requesting confirmation of their compliance with their Warm Home Discount (WHD) obligations. This confirmation must be in written form, using the bespoke templates provided by Ofgem. It should be sent to the WHD mailbox (WHD@ofgem.gov.uk) no later than 26 May following the end of the scheme year. We also require connected scheme gas suppliers to provide confirmation of any WHD activities they have undertaken, and outline how spending should be allocated to the CSEs.

6.2. CSEs and VSEs must submit accurate and correct information. If we need clarification or additional information it must to be provided within 15 working days of our request. This will be used to inform our final determination.

6.3. EoY reporting templates have been created for the following:

- Core Group
- Broader Group
- Industry Initiatives
- Non-Core Spending totals

6.4. A copy of these templates can be found in a separate Annex to this document (WHD Supplier Guidance Annex: Notification and End of Year Reporting Templates).

6.5. CSEs are required to complete an EoY report for the Core Group and Broader Group elements, each Industry Initiatives and non-core spending totals.

6.6. VSEs are required to complete an EoY report for the Core Group element.

Core Group report

Spend

6.7. CSEs and VSEs are required to provide Ofgem with their total spend on the Core Group element. Ofgem will check that the spend is in line with the rebates provided.

Rebates

6.8. Ofgem requires each participating supplier to provide details on the total number of Core Group rebates they have provided and a breakdown of how many were provided as a result of the data match and how many were provided as a result of the sweep up exercises. The SoS provides Ofgem with details for each participating supplier including how many Core Group customers were provided to each supplier on a notice in that scheme year and how many customers the supplier was unable to identify or was not a Core Group customer on those notices. Ofgem will ensure that the numbers provided by the supplier reconcile with the details provided by the SoS.

6.9. We will also require confirmation that all Core Group rebates were provided within the timescales outlined in the WHD Regulations (by 31 March or, within 30 days of receiving the customer information from the SoS post 1 March). If a supplier cannot confirm that all rebates were provided within timescales Ofgem will require information on the number of late payments and the reasons for these.

6.10. Confirmation will also be required that all customers whom a supplier was unable to identify as a Core Group customer were returned to the SoS within 30 calendar days. If a supplier cannot confirm this we will require details of the number of customers not returned to the SoS either outside of timescales or not at all, and the reasons why.

Exceptions

6.11. Suppliers will be required to provide Ofgem with the total number of Core Group customers where they think a regulation 8 exception should apply (these exceptions have been determined by the SoS). We will require suppliers to explain the efforts they have taken to provide the rebates before the exception was determined.

6.12. In cases where suppliers are unable to provide a rebate and an exception is not available under regulation 8 Ofgem will require a supplier to set out the circumstance, provide us with the number of customers that fall under each circumstance and outline the steps taken in an attempt to provide each of the rebates (as set out in regulation 9(6)). The application or otherwise of any exemption under the WHD Regulations is a matter of discretion for Ofgem.

Payment method and notification

6.13. Ofgem will require confirmation that all rebates were provided by one of the methods listed in regulation 7(3) and that all Core Group customers were notified that the rebate was provided as part of the WHD scheme, in accordance with regulation 7(5). Any such notification is required to be set out in either the customer's bill or otherwise specified in writing.

Broader Group Report

Spend and rebates

6.14. The Broader Group report will require CSESs to provide us with the total spend on this element of the scheme and the total number of rebates provided. Ofgem will also require assurance that the CSES has met its minimum Broader Group obligation. Ofgem will check that the spend is in line with the rebates provided and that the CSES's minimum requirements have been met.

6.15. The above will apply in the circumstance where a CSES either meets part of or its entire non-core obligation through the Broader Group rebate. Where a supplier is progressing the flexibility of Industry Initiatives spend we will require the above as minimum information but this must be supplemented with the evidence to support flexibility, Ofgem's approval and evidence that the balance of the obligation has been met through II delivery.

Eligibility criteria

6.16. CSESs will need to confirm that the eligibility criteria used for the Broader Group were the same as those outlined in the scheme notification (and any amendments) approved by Ofgem. We will want assurance also that the quality controls outlined in the notification have been applied.

Verification measures

6.17. Confirmation will be required that the verification measures used were the same as those in the approved scheme notification and any approved amendments. We will require the CSESs to outline the number of Broader Group customers who passed the documentary evidence check and, if available, the numbers that failed or failed to return the documentary evidence. Ofgem will seek confirmation that the verification reaches the minimum 5% requirement.

6.18. Records of all Broader Group applicants must be kept until six months after the end of the relevant scheme year. All records of Broader Group applicants entered into the documentary verification process must be kept until six months after the end of the WHD scheme year 5 (i.e. to September 2016). This includes applicants who fail the verification process. Records retained should include applications, documentary evidence submitted, and assessment records by the verifying party.

Payment method and notification

6.19. Confirmation is also required that all rebates were provided on time (by 31 March) using one of the methods listed in regulation 20(2), and that all Broader Group customers were notified that the rebate was provided as part of the WHD scheme, as per regulation 20(4).

Industry Initiatives reports

6.20. CSEs are required to provide reports for each individual Industry Initiatives. All spending figures provided in each report should exclude any Value Added Tax (VAT).

Spend

6.21. CSEs are required to provide details on how much was spent on the Industry Initiatives, and how much of that spend is to be attributed to the WHD scheme. Where there is a variance of +/-5% between the spend projected in the notification and the actual spend, Ofgem will require an explanation for this variance. Ofgem will require documentary evidence that the spend was committed or incurred within the scheme year and that collectively the spend on Industry Initiatives does not exceed the limits set out in the WHD Regulations.

Targeting

6.22. Confirmation is required in the report that the targeting is the same as those in the approved scheme notification and any conditions put in place during the approval process have been met. Ofgem will review the number of people benefiting from the activity and the percentage of people evidenced as being in fuel poverty or in a fuel poverty risk group.

Activities

6.23. Ofgem will require confirmation that the activity carried out is in line with what was approved in the scheme notification; that the spending was not incurred pursuant to a requirement in any other enactment, or in an electricity supply or gas supply licence; that the spending is not counted towards a spending obligation or target imposed by any other enactment, or by an electricity supply or gas supply licence; and that the activities carried out fall within the first column of the table in Schedule 4 of the WHD Regulations, and do not fall within an exception in the second column.

Value for money

6.24. We will look for evidence that any provisions put in place around value for money during the approval process have been met. We will look at the spend versus

the outputs to help us determine that value for money has been delivered. We will also assess any evidence of additional value.

Audit Reports

6.25. We require each supplier to submit an audit report to accompany their EoY reports by 26 May following the end of the scheme year. This report should outline the audit assurances for the compliance of the activities reported at the end of each scheme year. Each EoY report we receive should include a confirmation that the results reported by the supplier have been independently checked to be accurate and compliant with the WHD Regulations. Ofgem will be specifically looking for confirmation and assurance on the following areas:

Scheme Element	Summary of confirmation required in EoY reporting
All elements	Information submitted is materially accurate.
Core Group	All Core Group rebates provided to all customers instructed by the Secretary of State by the deadline set, subject to any exceptions.
	All Core Group customers were notified, either through their bill or in writing that the rebate payment was made under the WHD scheme.
	Non identified customers returned to SoS within 30 days.
	Exceptions reported in line with those identified by the Secretary of State.
Broader Group	The total number of Broader Group rebates provided by 31 March each year.
	All Broader Group customers were notified, either through their bill or in writing that the rebate payment was made under the WHD scheme.
	The mandatory eligibility criteria were used and any additional approved eligibility criterion were used and consistently applied across all applications channels throughout the year.
	The approved verification method was used and consistently applied across all applications channels throughout the year.
	The CSES has undertaken a sufficient level of random sampling and at least 5% of Broader Group rebate recipients successfully provided documentary evidence that they met the eligibility criteria, or had their eligibility confirmed via an appropriate third party, before any Broader Group rebates were paid each year.
Industry Initiatives	Total eligible spend.
	Targeting used is as specified within the approved notification.
	Activity cost breakdown and outputs achieved are accurately reported.
	Activities undertaken in line with approval agreement.

6.26. Further explanation of the overall audit process and assurances required for the WHD scheme can be found at Chapter 7.

6.27. Any audit or verification work supporting the EoY report should be carried out by a party that is independent of the company management and of those preparing the report. Ideally this accompanying report should be prepared by those responsible for internal audit of the supplier organisation. To carry out such an audit or verification, a party does not have to hold Consultative Committee of Accountancy Bodies (CCAB) qualifications; however it needs to be competent to perform such functions. The relevant audit report should accompany the EoY report, and should include details of the results of the verification, the independence and competence of the party who undertook the audit, and when it was undertaken.

End of year reporting process

6.28. Ofgem will review each of the individual reports for completeness (i.e. that the reports contain all the relevant information required to be able to determine compliance). If a supplier's report is considered to be incomplete Ofgem will contact the supplier and request the relevant information. Once Ofgem is satisfied that the information is complete, a confirmation letter will be sent to the supplier.

6.29. After determining completeness, Ofgem will then begin reviewing the reports to determine compliance. If any concerns are identified at this stage Ofgem will raise these immediately with the supplier and attempt to alleviate these concerns.

6.30. After determining the compliance of each of the individual reports Ofgem will determine overall scheme compliance. This will involve ensuring that CSES spending obligations have been met, it will also involve reviewing spending caps and ensuring that where spending caps have been exceeded this excess will not be attributed towards a CSESs' spending.

6.31. Should any activity not be assessed by Ofgem as compliant with the WHD Regulations, Ofgem may determine that a CSES cannot claim that activity under WHD, or dependent on the circumstances, that only a partial claim is appropriate based on the proportionality of compliant activity. Ofgem may also seek to take enforcement action against a CSES deemed to be non-compliant.

6.32. We are committed to conducting EoY compliance checks as quickly as possible and to report this to suppliers as soon as possible. We will keep suppliers informed at the following key stages – receipt of a complete EoY report; date of completion of audit, and date of compliance approval meeting.

7. Fraud, Misuse and Abuse Prevention, and Audit requirements

Chapter Summary

Audit activity is a key part of compliance reporting, this section describes the requirements for the Warm Home Discount (WHD) scheme.

Ofgem's audit programme

7.1. Ofgem is committed to examining at least one aspect of each supplier's WHD activity on an annual basis. Within this we take a risk based approach to audit and assurance of the WHD scheme, where the processes applied are appropriate to the potential material impact of non-compliance or fraud, misuse and abuse. Assurances are obtained through a programme of audits; at the mid-year stage of a scheme year and after each scheme year has ended.

7.2. Following routine risk assessment, Ofgem's audit programme could cover any element of the scheme - Core Group; Broader Group; Industry Initiatives; or other information used in Ofgem's administration of the scheme. For these elements our audits would aim to establish that:

- Core Group rebate payments were provided to customers identified to Compulsory Scheme Electricity Suppliers (CSESs) or Voluntary Scheme Electricity Suppliers (VSESs) by the SoS
- Broader Group rebate payments were provided in accordance with approved eligibility criteria and verification measures;
- Industry Initiatives were carried out in line with the WHD Regulations, and that adequate measures to ensure that benefits were provided wholly or mainly to persons in fuel poverty or in a fuel poverty risk group – and that the initiative exhibits value for money
- Other information provided by suppliers has been prepared accurately and on the basis of appropriate evidence

7.3. To aid our assessment of risk of non-compliance or fraud, the WHD Compliance and Audit Manager may also request to conduct observation visits, with the agreement of suppliers, to selected supplier scheme activities during the scheme year. Suppliers would be notified in advance of any visits and expectations for such an observation would be provided.

7.4. Our auditors will be required to verify the domestic customer numbers provided by suppliers prior to the start of each scheme year. The results of this

exercise will be shared with other Ofgem schemes that require similar verification of domestic customer numbers to set annual obligations, to reduce duplication of effort.

7.5. We will appoint an independent auditor to conduct WHD audits on our behalf. Suppliers will be notified at least two weeks in advance when these will take place along with the detail of the scheme activity we intend to audit.

7.6. The following sections outline Ofgem's audit programme and how we will engage with suppliers on work throughout the scheme years.

Ofgem's mid-year audit programme

7.7. The purpose of our mid-year audit programme is to minimise the risk of supplier non-compliance at scheme year end. The bulk of our audit programme will be committed to this phase to maximise opportunities for any necessary remedial action before the relevant scheme year end.

7.8. We aim for auditors to visit suppliers or delivery partners in November each year to carry out the mid-year audit programme.

7.9. A wash up meeting will take place between the auditor and the audited party to allow key findings to be shared and discussed.

7.10. Key findings will then be highlighted in the audit report, with associated recommendations to mitigate these findings. Suppliers will receive a copy of the draft audit report to consider and respond to. It is expected that this response will cover Management's proposed actions to address these recommendations, including timescales and action owners.

7.11. Ofgem will provide suppliers with a copy of the draft report for consideration no later than 8 weeks after date of visit by auditors. In advance of this, we will highlight and discuss significant audit findings with the suppliers no later than 4 weeks after date of visit by auditors, to allow timely remedial action to be taken.

7.12. Once the finalised audit report has been agreed and issued, we will track achievement of agreed recommendations. This will involve written confirmation of achievement by the action owner and, where appropriate, submission to Ofgem of evidence of action taken by the audited party.

Ofgem's end of year audit programme

7.13. The purpose of our EoY audits is to verify specific information provided by suppliers in their annual reports. This exercise forms part of our annual compliance review.

7.14. We aim for auditors to visit suppliers or delivery partners in June/July during the relevant compliance review period. Issue of reports will follow the same process as that during the midyear programme.

7.15. We aim to provide suppliers with a copy of the draft report for consideration no later than 8 weeks after date of visit by auditors. In advance of this, Ofgem aim to highlight and discuss significant audit findings with the suppliers no later than 4 weeks after date of visit by auditors, to allow timely remedial action to be taken.

Supplier internal audit requirements

7.16. We also expect suppliers to undertake their own internal audit examination to verify the accuracy of the information provided in end of scheme year reports.

7.17. Staff employed on this activity do not have to hold qualifications. However they need to be competent to perform such functions. They should also be able to demonstrate their independence from company management and supplier WHD operational staff.

7.18. Through a combination of Ofgem-appointed external audit work and internal audit work, suppliers must ensure that audit assurance can be provided for the accuracy of the information reported for each activity under the WHD scheme in the year, sufficient to support the compliance assessment process.

Ofgem internal assessment assurance

7.19. Ofgem will from time to time, employ external auditors to offer independent assurance of our internal systems and processes that are in place for administering the WHD scheme, to determine that they are sufficient to deliver the scheme in an accurate and efficient manner.

Fraud, misuse and abuse prevention

7.20. Whilst the WHD Regulations do not require suppliers to prevent fraud, misuse and abuse, robust fraud prevention measures are crucial in maximising the benefits for consumers genuinely in or at risk of fuel poverty. It is in the interests of the WHD scheme that suppliers and Ofgem work together to maintain these fraud prevention measures, and simultaneously reduce the risk of reputational damage to both suppliers and Ofgem that would be caused by instances of fraud within a fuel poverty scheme.

7.21. We expect suppliers to satisfy themselves and their internal auditors that Core Group rebate payments are only provided to customers identified by the SoS. Suppliers will also have to assure Ofgem, and any agent acting on its behalf, that they have effective internal management controls in place to allow for such assurance to be reached.

7.22. Design and implementation of appropriate fraud, misuse and abuse prevention controls is a pre-requisite of approval for Broader Group and Industry Initiatives, and it is expected that the risks of inappropriate payments to Core Group customers are considered and reasonable measures are taken to prevent these. The WHD team will support suppliers in designing robust controls for the prevention of fraud, abuse and misuse.

7.23. Where Core Group and Broader Group rebates are not provided directly to a customer account (such as for those customers with pre-payment meters) any alternative process to provide the rebate should be robust enough to minimise interception by a person other than the recipient. Ofgem ask all suppliers how they intend to make payments in these cases, and we encourage suppliers to minimise the risk of cheques being fraudulently cashed.

7.24. Suppliers should notify the WHD Compliance and Audit Manager of any significant instances of suspected or identified fraud within the scheme at the earliest opportunity.

Appendices

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Appendix	Name of Appendix	Page Number
1	Timeline of key WHD scheme dates and deadlines	55
2	Glossary	57
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4	Amended End of Year Template (attached as separate document)	

Please note that copies of the notification templates and EoY reporting templates can be found in a separate annex.

Appendix 1 – Timeline of key WHD scheme dates and deadlines for SY5

Responsible Party	Activity	Deadline
Proceeding the scheme year		
All domestic licensed electricity suppliers and domestic licensed gas suppliers connected to a licensed electricity supplier	Provide customer data notification to Ofgem	25 March 2015
All non-compulsory domestic licensed electricity suppliers	Notify Ofgem of their decision whether or not to participate in the Core Group	25 March 2015
DECC	Provide non-core spending obligation for upcoming scheme year	18 March 2015
Ofgem’s External Auditors	Audit of customer data notification	Feb/March
Ofgem	Notify participating suppliers of their non-core market share and initial non-core spending obligation	8 April 2015
Ofgem	Provide the SoS and the Reconciliation Operator with details on suppliers market share and if any suppliers volunteered to participate in the Core Group	8 April 2015
During the scheme year		
All Compulsory Scheme Electricity Suppliers	Submit Broader Group and Industry Initiative notifications and amendments to notifications	Throughout the year
Ofgem	Approve or request additional information on Broader Group and	Within 28 days of receiving the notifications

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	Industry Initiative notifications and amendments to notifications	
Suppliers	Undertake Broader Group and Industry Initiative activity	Throughout the year, note payments can only be made after receiving approval from Ofgem
DECC/DWP/suppliers	Core Group data matching and sweep up exercises	During the scheme year
Reconciliation Operator	Core Group Reconciliation	3 times throughout the scheme year
Suppliers	Provide Core Group rebates	No later than 31 March or, if notified after 1 March, 30 days after receiving the notice from the SoS. No instructions will be issued after 1 March 2016
Ofgem's External Auditors	Mid-year Audit	October/November
Suppliers	If necessary, submit notification of request to transfer spend on obligation from Broader Group to Industry Initiatives	No later than 15 December 2015
Ofgem	Determine whether, and how much, a supplier's non-core obligation can be amended	Within 28 days
Following the end of the scheme year		
All Compulsory Scheme Electricity Suppliers and Voluntary Scheme Electricity Suppliers	Submit End of Year Reports	26 May
Ofgem's External Auditors	End of Year Audit	June
Ofgem	Adjust spending obligations	30 September
Ofgem	Provide SoS with the WHD Annual Report	31 October

Appendix 2 - Glossary

C

CCAB

Consultative Committee of Accountancy Bodies

CSES

Compulsory Scheme Electricity Supplier

CSGS

Compulsory Scheme Gas Supplier

D

DECC

Department for Energy and Climate Change

DWP

Department for Work and Pensions

E

ECO

Energy Company Obligation

EoY

End of Year'

S

SoS

Secretary of State

SGS

Scheme Gas Supplier

V

VAT

Value Added Tax

VSES

Voluntary Scheme Electricity Supplier

W

WHD

Warm Home Discount

Appendix 3 – List Amendments to WHD Supplier Guidance Version 3

Chapter	Paragraph(s)
Executive Summary	Purpose of document.
1	1.1 – 1.5.
2	2.11 - 2.14; 2.36 – 2.39; 2.49 – 2.53.
4	4.5; 4.10 - 4.14; 4.16 – 4.19.
N/A	Previous chapter 5 (Legacy Spend) removed, and subsequent chapters renumbered.
5	5.15 – 5.18; 5.44 – 5.53.
6	6.1 – 6.6; 6.25 – 6.27.
7	7.11.
N/A	Dispute Resolution chapter removed.